

**MICROENTERPRISE BEST PRACTICES (MBP) PROJECT**

**YEAR TWO WORK PLAN**

**April 1, 1997 - March 31, 1998**

Development Alternatives, Inc., Bethesda, Maryland

June 1997

## TABLE OF CONTENTS

A.	OVERVIEW OF REPORT	1
B.	MBP PROJECT BACKGROUND	1
C.	REVIEW OF YEAR ONE ACTIVITIES	3
C.1	MBP Management Activities	3
C.2	MBP Research Activities	4
C.3	MBP Grant Activities	5
C.4	MBP Information Dissemination Activities	9
C.5	Interconnections between Research/Grant/Information Dissemination Activities	10
C.6	Year One Expenditures by CLIN	13
C.7	Lessons Learned and Recommendations	13
D.	PLAN FOR YEAR TWO	
D.1	MBP Management Activities	19
D.2	MBP Research Activities	21
D.3	MBP Grant Activities	23
D.4	MBP Information Sharing Activities	25
D.5	Year Two Planned Expenditures by CLIN	26
ANNEXES		
A.	Concept Paper Content	A-1

## **LIST OF TABLES**

C	August 1996 Grant Solicitation - Regional Breakdown	6
C	Key MBP Grant Proposal Statistics, 1996	7
C	MBP Grants Awarded in Year One	8
C	Interaction Between the Grant Facility and the Research Component	11
C	Year One Expenditures by Contract Line Item Number	13
C	Planned Year Two Research Outputs	22
C	Grant Solicitations and Awards	24
C	Year Two Projected Expenditures by Contract Line Item (CLIN)	28
C	List of MBP Concept Papers as of 3/31/97	A-1

## **A. OVERVIEW**

This report is the second annual work plan for the Microenterprise Best Practices (MBP) Project, USAID Contract Number PCE-0406-C-00-6004-00. It provides an overview of accomplishments for the project's first year (March 26, 1996 - March 31, 1997) and a plan for the second project year (April 1, 1997 - March 31, 1998). This report is a required deliverable of the MBP contract.

This work plan is prepared by Development Alternatives, Inc. (DAI), the prime contractor of the MBP Project. It is based upon assessments of accomplishments in the first project year, discussions with USAID's Microenterprise Development Office (G/EG/MD), and planning discussions with MBP subcontractor institutions.

In Section B, the work plan briefly lays out the overall structure and purpose of the MBP Project. Section C identifies Year One accomplishments. Based on these accomplishments, Section C closes with an extensive discussion of lessons learned and recommendations for Year Two. Section D outlines the planned tasks and deliverables for Year Two by project component. The annex includes a brief technical overview of the research component's content, based upon Year One discussions and decisions.

## **B. MBP PROJECT BACKGROUND**

The five-year MBP contract was signed on March 25, 1996 between the U.S. Agency for International Development (USAID) and DAI. In addition to DAI, the prime contractor, the MBP implementation team includes seven subcontractor institutions: ACCION International, FINCA International, Opportunity International (OI), the Small Enterprise Education and Promotion (SEEP) Network, the Ohio State University (OSU), the Harvard Institute for International Development (HIID), and the International Management and Communications Corporation (IMCC).

The MBP Project is designed to meet three purposes: to expand the knowledge base of the microenterprise field; to improve the performance of microenterprise support organizations; and to improve the design and implementation of USAID-supported projects. To achieve these ends, the project will undertake action oriented research in 20 topic areas<sup>1</sup>; develop and manage a grant fund for institutional strengthening and learning; and develop an extensive information dissemination network to serve practitioners worldwide. The ultimate goal of the project is to use these various means to promote the expansion and effectiveness of microenterprise services that facilitate entrepreneurial activities of the poor.

---

<sup>1</sup> The original proposal and Year One work plan discussed 21 topic areas. Due to the extensive technical overlap between two topic areas (Ownership and Governance), these topic areas have been merged, reducing the total number of unique topic areas to 20.

The MBP project is divided into four operational components: the management component, the research component, the grant component, and the information dissemination component.

- **Management Component:** Management of the MBP contract involves development and maintenance of financial, contractual, and technical information systems; establishment of protocol for all phases of work; provision of intellectual leadership; production of required management reports; and maintenance of effective communication between all parties.
- **Research Component:** The research component covers 20 distinct research topics and requires 103 deliverables. Prior to beginning work on the individual required deliverables, each topic has been refined by development of a conceptual framework, presented in Concept Papers. While not project deliverables, development of Concept Papers has provided an important venue for discussions on the state of the art and identification of the niche MBP will fill with its research in that topic area.
- **Grant Component:** The MBP Grant Facility provides \$2.4 million in grant monies to be awarded on a competitive basis to practitioners in the field of microenterprise or microfinance. Grants are for three purposes: (1) capacity-building activities for practitioner institutions; (2) information exchange between practitioner institutions; and (3) pilot testing of innovative methodologies in the field.
- **Information Dissemination Component:** This component serves as the outreach arm for sharing learning from the research and grants components, as well as to enhance dialogue among practitioners and donors. To accomplish these tasks, MBP is to develop a variety of electronic and print media (including a website and a written publication series), and hold public events.

## **C. REVIEW OF YEAR ONE ACTIVITIES**

This section provides a thorough review of all project activities undertaken in Year One (March 26, 1996 - March 31, 1997). In addition to examining each component separately, it also identifies areas where the components interconnect. Finally, it provides a review of Year One project expenditures, as well as a discussion of lessons learned in Year One, and recommendations for revision.

### **C.1 MBP Management Component**

#### **C.1.a. Personnel**

Management activities were undertaken primarily by a team of two individuals at DAI: the MBP Managing Director and the Project Administrator. Additional support was provided by the MBP Technical Director, the Information Dissemination Coordinator, and the Grants Administrator. No changes were made in staffing or key personnel during this period. As originally proposed, all MBP personnel were only budgeted at part-time during Year One.

#### **C.1.b Activities**

Year One was an important year for management activities, which can be separated into two categories: (1) those related to project design and kick-off; and (2) recurrent management activities. For the first category, Year One included the following design and kick-off activities:

- Initial project technical planning meeting attended by project management, research advisors, and USAID staff (April)
- Initial team orientation meeting attended by all subcontractors (June)
- Development of initial subcontract plan based upon fixed-price approach (May)
- Revision of subcontract plan to cost-plus-fixed-fee approach (October)
- Construction and installation of Lotus Notes system (TAMIS) for deliverable management (June)

An important design deliverable, the Grant Planning and Management document, was completed in August and approved by USAID/Contracts in February 1997. While officially under the Management Component, operationally it falls under the Grant Facility Component, and is discussed again in that section.

Year One recurrent management activities included the following:

- Submission of Year One Work plan (July)
- Submission of Quarterly Progress Reports (July, October, and January)
- Submission of Monthly Financial Reports (May-March)

All of these activities were completed according to the time line set out in the Year One work plan, and were accepted by the Microenterprise Development Office at USAID (G/EG/MD).

## **C.2 MBP Research Activities**

As anticipated at the outset of Year One, the highest priority for the Research Component in Year One was to come to agreement on the conceptual content and priorities for MBP research. This agreement was to be laid out in concept papers (which are not MBP deliverables), each of which would specify the content, timing, and institutional assignments for a given topic area. Input into the concept papers would come from USAID's Microenterprise Development Office as well as multiple MBP consortium members.

Because the concept paper process was expected to require focused technical support and extensive coordination, it was anticipated that only 10 of the 20 concept papers would be completed in Year One. In fact, 12 concept papers were either completed or underway by the end of Year One:

- Managing the Growth of Microfinance Institutions
- Institutional Alternatives to NGOs for Microfinance
- The Evolution of Credit Methodologies
- Special Financial Management Issues for Microfinance
- Poverty Assessment for Microfinance Institutions
- Business Development Services
- Alternative Financing Mechanisms for Microfinance
- Information Management for Microfinance
- Village Banking
- Ownership and Governance of Microfinance Institutions
- Savings Services as Part of Microfinance
- The Regulation and Supervision of Microfinance Institutions

Annex A provides a short description of the technical content for each of the topic areas.

In addition to concept paper development, it was originally hoped that 13 research deliverables would be completed in Year One. As discussed in the Year 1/Quarter 4 report, concept paper development took longer than anticipated, given the iterative nature of the process and the more extensive nature of concept paper discussions and content. This resulted in late starts but better overall focus and quality of the research products. As noted in the Year One work plan, "If given sufficient time and resources, this [concept paper] process will ensure the usefulness and quality of the required research deliverables." (page 6). Therefore, as of the end of Year One, three research deliverables were in various stages of preparation:

- Desk Review of Business Development Services
- Literature Review on Managing Growth of Microfinance Institutions

- Desk Study on Commercial Banks as Microfinance Institutions

### **C.3 MBP Grant Activities**

Year One was a busy and highly productive year for the MBP Grant Facility. During the course of the year, not only was the Grant Facility designed from the ground up, but it also undertook multiple grant solicitations resulting in the award of \$379,890 in grant funds. This section outlines key accomplishments in terms of design of the Grant Facility, establishment of an external grant review committee, and solicitation and award of Year One grants. A more detailed discussion of Year One accomplishments can be found in the MBP Annual Grant Summary Report.

#### **C.3.a Design of the Grant Facility**

As anticipated in the Year One work plan, the first half of Year One was dominated by planning and design tasks for the Grant Facility. Successfully completed design tasks include the following:

- Developed objectives for each type of grant
- Developed selection and eligibility criteria for each type of grant
- Determined grant sizes and annual funding levels
- Developed solicitation strategy
- Determined screening and approval process for grants
- Determined technical assistance and monitoring/learning strategy for portfolio
- Developed overall administration and management procedures and systems
- Drafted boilerplate grant agreements

Upon completion of the above tasks, the Grants Administrator developed the Grant Planning and Management document (officially a Management Component deliverable), which lays out each of the above in full detail. This document was submitted to USAID/Contracts and the MBP Project Officer in the Microenterprise Development Office (G/EG/MD) in August, and was approved by both USAID offices as of February.

As an information management tool, the Grants Management System (GMS), a Lotus Notes-based database, was designed to house all information regarding incoming grant proposals, screening, evaluation, and award. This system was implemented both at DAI and USAID and provides complete transparency in the management and award of MBP grant proposals and awards.

#### **C.3.b Identification and Selection of the Grant Review Committee**

Early in Year One, the Grants Administrator identified a list of potential candidates to serve as



external grant review committee members. This list was vetted with USAID, and based upon their feedback, a short list of 12 candidates was contacted for interest and availability. In June, a four-person committee was chosen, and first served as grant reviewers in December. These individuals are expected to serve two-year terms (through March 1998).

### C.3.c Year One Grant Solicitation

MBP staff, in collaboration with USAID, developed a grant solicitation strategy that targets microenterprise practitioner organizations in countries in which USAID has a presence or which are identified as least developed countries by UNCTAD. Grant applications were solicited for three types of grant awards:

- **Exchange visit grants**, which support exchanges of experience, development of specific technical skills, and cooperation among microenterprise service organizations (awarded three times a year).
- **Capacity-Building grants**, which support training, product or systems development, and other activities that improve the technical skills and knowledge base of organizations and networks providing services to microentrepreneurs (awarded once a year).
- **Innovation grants**, which support the field-testing of innovative programs, technologies, and methodologies that are new to the microenterprise field and have the potential to improve the delivery of services to microentrepreneurs (awarded once a year).

MBP released two solicitation announcements in Year One. In August, MBP mailed announcements to 422 microenterprise practitioner organizations in 68 countries to solicit proposals for all three types of grant awards for 1996. The box below provides a breakdown, by region, of where those organizations were located.

#### August 1996 Solicitation - Regional Breakdown

26%	Asia/Pacific
24%	Anglophone Africa
18 %	Latin America/Caribbean
15%	U.S.
9%	Francophone Africa
6%	Middle East
1%	Central and Eastern Europe/Former Soviet Union
1%	Lusophone Africa

This solicitation was also mailed to 64 USAID Missions and Representative Offices. In February, MBP distributed 343 copies of a supplemental, exchange visit grant announcements for proposals due on April 30, 1997 and June 30, 1997 to representatives of non-governmental organizations (NGOs) attending the MicroCredit Summit in Washington, D.C. The

announcement was also mailed to all members of SEEP and e-mailed to all USAID missions. Finally, MBP posted all grant solicitations on the MIP website and established a “hot line” number for organizations to call to request a copy of the announcement or seek additional information on the grant facility. Through such channels, MBP fielded an additional 50 requests for copies of the announcement or additional information on the grant facility.

In response to both solicitation announcements, a total of 95 proposals were received on or before the applicable deadlines, representing 75 different organizations from 28 countries. The table below shows some key statistics for the 95 proposals that were received by the applicable deadline:

### Key MBP Grant Proposal Statistics, 1996

<b>Type of Request:</b> (based on 95 applications)	43% Capacity-Building 34% Pilot Project 23% Exchange Visit
<b>Organization Type:</b> (based on 75 organizations)	57% NGO 20% U.S. PVO-headquarters 11% Credit Unions, Cooperatives 7% U.S. PVO - field offices 5% Other (banks, networks, etc.)
<b>Region:</b> (location of organization submitting proposal, based on 75 organizations)	25% Latin America/Caribbean 23% Asia 20% U.S. 20 % Anglophone Africa 5% Francophone Africa 3% Central and Eastern Europe/Former Soviet Union 3% Middle East 1% Western Europe

In Year 1, MBP also looked forward and prepared for future solicitations by significantly augmenting its Grant Facility mailing list. Principally through flyers distributed at the MicroCredit Summit and by mail, approximately 300 microenterprise practitioner organizations have been added to the list and will receive Year 2 announcements.

### C.3.d Year One Grant Awards

MBP allocated \$365,000 for Year One grant awards, with the understanding this amount could vary depending the actual number of proposals (and corresponding budget values) recommended by the review committee and approved by USAID.

Through two review committee meetings (held in December and January), 13 grant proposals were recommended for funding by the review committee. All were subsequently approved by USAID at a total dollar value of \$379,890. The table below provides information on the 13 grants approved in Year One.

**MBP Grants Awarded in Year One**

Category of Grant	Number of Awards	Total Number of Awards Required in Contract	Funding Commitments
Capacity Building	5	10-15	\$230,000
Pilot Project	2	5-10	\$100,000
Exchange Visit	6	25-30	\$49,890
Total	13	40-55	\$379,890

The following are key statistics on the current portfolio of 13 grants:

- C Eight of the 13 grants, or 62%, are for activities in the area of financial services. Five grants, or 38%, are for activities in the area of business development services.
- C Grants are geographically dispersed, with activities taking place in Africa, Asia, Latin America, and the Middle East.
- C Approximately \$500,000 was leveraged in grantee and other donor contributions to demonstrate local commitment to grant activities.
- C Average grant size is \$29,222. Within exchange visit grants, the average size is \$8,315. Within capacity-building, the average size is \$46,000. Within pilot projects, the average size is \$50,000.
- C 33 individuals - representing Board members, senior staff, and middle-level managers - are participating in exchange visits.
- C Over 100 different microenterprise practitioner organizations - serving hundreds of thousands of microentrepreneurs - are participating in or will benefit from capacity-building and pilot project activities.

Profiles of MBP grant awards made in Year One are available on the MBP website, and as an annex in the MBP Annual Grant Summary Report.

#### **C.4 MBP Information Dissemination Activities**

The MBP Project undertook multiple information dissemination activities in Year One, which can be divided into two categories: (1) design of information sharing systems, and (2) specific information sharing events. The first category lay the groundwork for long-term effectiveness of the MBP information dissemination strategy, and included the following activities:

- Developed a website for the larger Microenterprise Innovations Project (MIP), an umbrella project of USAID's Microenterprise Development Office (G/EG/MD), which includes subpages for five sub-projects: the MBP Project, the MicroServe Project, the Assessing the Impacts of Microenterprise Services (AIMS) Project, the PRIME Fund, and the Implementation Grants Program. In addition, the website houses community-wide information on events and resources.
- Developed information sharing protocol between MIP partners for website content, and undertook monthly updates of MIP partner activities and publications to keep website current.
- Developed MBP mailing list database to provide contacts for information sharing activities, grant solicitations, requests from MIP partners for names and addresses, and list of e-mail addresses for potential ListServe in future project years.
- Developed Memorandum of Understanding (MOU) with PACT Publications to serve as commercial distribution agent of MBP Publications. This MOU was submitted to USAID for approval in October, but approval remains pending.
- Developed Lotus Notes-based computer systems for intra-MBP information sharing, including both the TAMIS and the Technical Discussions databases.
- Undertook discussions with USAID to determine translation priorities, resulting in plans to translate all two-page research synopses into French and Spanish, as well as some key technical documents.
- Developed project logo and tag-line ("Widening the Circle, Moving Ahead"), and project brochure, which was distributed to over 3,000 microenterprise-related institutions.
- Contacted and informed other donors about MBP mandate and activities.

In addition to the above design activities, one MBP public event was held in Year One: a one-day workshop on the role of networks in facilitating information exchange and capacity development of microfinance institutions. In addition, planning was undertaken for a second public event -- a one-day workshop on village banking -- scheduled for the first quarter of Year Two, it took place on May 12, 1997.

## **C.5 Interconnections Between Project Components**

One of the strengths of the MBP Project is its potential to combine learning initiated in the field through the Grant Facility with learning initiated by USAID and the MBP team through the Research Component, and then to share this learning widely through the Information Dissemination Component. In the original DAI proposal, building these interconnections between project components was seen as one of the key mechanisms that would lead to long-term project success. Thus, it is useful to look for interconnections that emerged in Year One between the components, and to explore (later in the report) opportunities to build further interconnections in future project years.

### **C.5.a Between the Grant Facility and the Research Component**

By mandate, the activities funded under the Grant Facility are to come from ideas generated solely by practitioners in the field, not by MBP implementors or USAID. Thus, the content and priorities of the Research Component are not designed to influence the Grant Facility's mandate or funding. However, learning that takes place through grant activities *is* expected to inform the Research Component. Given the breadth of the Research Component's 20 topic areas, it is inevitable that each grant does indeed shed light on issues somewhere on the MBP research agenda. It is possible to examine each of the 7 innovation and capacity-building grant awards and identify which research topic (or topics) they inform, as shown in the table below.

<b>Grant Type</b>	<b>Grant Title</b>	<b>Related Research Topic(s)</b>
Capacity-building Grants	Linking cooperative insurance companies and microlenders through training and technical assistance (American Association of Cooperative/Mutual Insurance Societies)	New Financial Products and Services
	Dissemination the “Women’s Enterprise Networks” (WMEN) approach (Save the Children/USA)	Business Development Services; Networks
	Internal Account Management Tool Kit for Village Bank Practitioners (Catholic Relief Services)	Village Banking; Special Financial Management Issues
	Microenterprise Policy Training Institute (Calmeadow)	Regulation and Supervision
	Strengthening the Recycling Sector: Information, Coordination, and Training (Instituto de Promocion de la Economia Social)	Business Development Services; Sectoral Linkages - MSEs and the Environment
Innovation Grants	Linking Poor Artisans to Global Wholesale Markets via the Internet (PEOPLink)	Market Access
	Rating System for Microlenders (Private Sector Initiatives Foundation)	Special Financial Management Issues; Information Management

### **C.5.b Between the Research and Information Dissemination Components**

The importance of the relationship between the Research and Information Dissemination components has already become apparent in Year One. There are several ways in which this connection has manifested itself:

- Discussions at the Year One workshop on Microenterprise Networks produced a rich body of knowledge that is being assimilated into the research plan for that topic area. It is unlikely that the level of understanding driving the research plan would have been as high, had it not been vetted through face-to-face discussions with so many involved practitioners.
- Research plans and products are part of the content of the MBP website, adding to the substantive value of the site for users.
- Part of MBP Information Dissemination activities is regular contact with other donors and researchers in the microenterprise field. This contact has yielded important insights into the work underway in the different institutions, which has provided further direction to the MBP research agenda and avoided replication of research in some cases.

**C.5.c Between the Grant Facility and the Information Dissemination Component**

Four interconnections between the Grant Facility and Information Dissemination appeared in Year One:

- The MIP website registry has provided a mechanism for practitioners to add their names to the grant solicitation mailing list.
- The MIP website is used as an instrument for announcing the MBP grant solicitations.
- The MIP website is used as a dissemination mechanism to publicize MBP grant awards.
- The Information Dissemination mailing list provided names and addresses for direct mailing of MBP grant solicitations.

It is anticipated that future interactions between these two components will become ever more substantive, as information dissemination workshops may include grant recipients and focus upon lessons learned through grant activities.

## C.6 Year One Expenditures by Contract Line Item Number

The table below provides expenditures by project Contract Line Item Number (CLIN). The figures in Year One Expenditures include only those costs billed as of March 31, 1997. The figures in Year One Total Obligations also include the costs of research and information dissemination for subcontractor efforts underway at the end of Year One but not yet billed and the \$379,890 obligated Year One grant funds that are scheduled to be disbursed in Year Two.

**Year One Expenditures by Contract Line Item Number**

<b>Contract Budget Line Item</b>	<b>Life of Project Budget</b>	<b>Year One Expenditures</b>	<b>Year One Total Obligations</b>	<b>Remaining Balance</b>
Management	639,450	155,858	155,858	484,150
Best Practices Research	1,078,621	6,923	42,493	1,036,128
Frontier Research	1,490,969	56,064	82,966	1,408,003
Horizon Research	1,190,647	2,036	41,656	1,148,991
Information Dissemination	1,373,746	138,248	142,043	1,231,703
Grant Administration	508,716	88,049	89,573	419,143
Grant Funding	2,400,000	0	379,890	2,020,110
<b>Total</b>	<b>\$8,682,149</b>	<b>\$447,178</b>	<b>\$934,479</b>	<b>\$7,747,670</b>

## C.7 Lessons Learned and Recommendations

As the first year of a complex project, Year One has provided an opportunity to identify ways in which the original project and management plans can be further strengthened in order to enhance project performance. All of the issues discussed in this section have been presented to USAID in written quarterly reports during Year One, or discussed in DAI-USAID planning meetings for Year Two.

This section attempts to provide not only lessons learned, but also recommendations for remedial action. It is understood by DAI, however, that only some of the suggested recommendations can be implemented by DAI directly. Other recommendations may require USAID contractual approval, as they affect both the USAID-approved subcontract mechanism or Sections C or F of the contract.

### C.7.a Management Lessons



- **Management Personnel**

As discussed in Section C.1.a above, all of the five DAI management personnel were originally proposed as part-time staff throughout the project. In Year One, only two DAI staffers -- the Grants Administrator and the Information Dissemination Coordinator -- worked more than half-time on the project. This part-time schedule was designed to keep management costs to a minimum both in Year One and over the life of the project. However, it now appears that a full-time project director is required to give the project adequate continuity and oversight. In light of this lesson, DAI is rebudgeting management time to include a full-time Managing Director for subsequent project years. In addition, the part-time positions of Information Dissemination Coordinator and Project Administrator have been combined into a single full-time position, to allow that individual to give full-time focus on project activities and to concentrate project information into fewer hands.

- **Subcontract Mechanism**

During the first quarter of the project, DAI submitted a proposal for a fixed-price subcontracting vehicle for approval to USAID's Contracts Office. Because MBP is a performance-based contract, this vehicle sought to provide appropriate incentives for DAI's subcontractors to provide high quality products in a timely fashion, while limiting their administrative costs. This was particularly important in view of the fact that DAI is required by contract to manage subcontractor performance and expenditures on a product-by-product basis. After considering the subcontracting vehicle for four months, USAID/Contracts finally rejected it. At that time, USAID required DAI to implement a cost-plus fixed fee subcontracting mechanism.

This outcome had several negative effects. Firstly, delays in responding to DAI's subcontracting proposal effectively caused a six month delay in the implementation of DAI's ability to contract services with the other members of the consortium -- delays which manifested themselves in the slow start of research activities (the majority of which are assigned to subcontractor institutions). Secondly, and more important over the life of the project, the cost-plus-fixed fee subcontracting vehicle has the potential to undermine DAI's ability to manage the project in such a way as to ensure the completion of high quality products in a timely fashion. This is of significant concern to Project Management. Thirdly, the cost-plus fixed fee as opposed to a fixed price contracting vehicle imposes significantly higher administrative costs on our subcontractors.<sup>2</sup> The majority of MBP subcontractors have expressed extreme concern over the administrative burdens that the contract imposes on them, and have requested that the matter of subcontract mechanism be re-opened for discussion.

---

<sup>2</sup> Subcontractors are required to financially report to and bill DAI on a product-by-product basis, with complete accounting records which can be audited. This entails setting up separate personnel and other direct billing codes (such as for supplies, phone calls, etc.) for each product on which the subcontractor is working. For small products (such as two-day assignments to participate in an MBP workshop), the costs of setting up new billing codes and new account books outweighs the entire value of the Task Order.

It is difficult to identify a remedial action that DAI can undertake without consent of USAID's Contracts Office to re-open discussion of the subcontracting mechanism. DAI is exploring different strategies to encourage subcontractor participation and enthusiasm in the project, but will be unable to relieve the burden of excessive administrative costs of the project unless the issue of the subcontract mechanism can be reviewed with USAID Contracts.

- **Communication Mechanisms**

One of the richest aspects of the MBP project is the wide array of technical personnel available through the eight MBP consortium members and at USAID/G/EG/MD. As originally conceived, each project component and product would be assigned a group of core researchers, who would have the support of research advisors from other MBP consortium institutions and from USAID's Microenterprise Development Office.

Year One revealed both the value of such communication, and the difficulties of implementing such a system. Given the caliber of the personnel involved, all have busy schedules and travel frequently. In addition, only some of the personnel are based in the same geographic area, leading to greater reliance on distance communication methods -- phone, fax, e-mail, and other electronic media. To overcome these difficulties, DAI proposed and developed a Lotus Notes-based systems of communication that would house project information and would serve as a real-time method of sharing information between distant sites. While these systems have been developed in Year One (the Lotus Notes TAMIS and Technical Discussions Databases), implementation in subcontractor institutions and actual subcontractor usage has been slow, reducing the performance of the system. In addition, Year One showed that these systems cannot replace regular, two-way contact between individuals. Such communication should be regularized, and the information collected should then be channeled into the group-based databases to make such ideas and decisions transparent to all participants.

Based upon these lessons, two refinements are required. First, additional efforts will go into ensuring that all subcontractor institutions and USAID/G/EG/MD have access to and training on the Lotus Notes databases. In most cases, a "point person" will be identified within the subcontractor institution who will be the primary user of the system and will work with other subcontractor staff to access the appropriate MBP information. Such a system is already working well in three subcontractor institutions. Second, having a full-time Managing Director and Project Administrator/Information Dissemination Coordinator will provide the necessary staff support to ensure that both direct and group-wide communication flourishes.

### **C.7.b Research Lessons**

Three issues bear examination under the Research Component, either because of their effect on Year One output, or because of their expected importance in future project years.

- **Expanded Concept Paper Development**

Concept papers are not official “deliverables” under the project. Rather they are intended to serve as a forum for reviewing the state of the art in a technical area and defining the MBP niche for future research. Clearly, such an exercise can be cursory or detailed, depending on the resources available and the complexity of the topic. As originally proposed, concept paper development was intended to be a fairly short exercise. In fact, the concept paper development process has been extended to include multiple iterations of discussions between at least three institutional parties. The concept paper development team also undertakes extensive interaction with donors and practitioners in other institutions to survey their learning and current efforts in the same topic area, in essence becoming a miniature “desk study” for the topic area. Once completed, the concept papers are then vetted with USAID’s Microenterprise Development Office. Despite the time requirements of initial rounds of information collection and the multiple iterations of drafts, concept paper writers are only provided four days level of effort, in order to reduce the flow of financial resources from project deliverables to non-deliverable activities. However, concept paper discussions have required an average of four months of intensive discussion, rather than requiring the originally conceived two weeks of focus. This has had the negative effect of slowing the process of work on the actual research deliverables that were to be based upon the framework laid out in the concept papers. It is possible to point to nine of the 13 originally planned Year One research deliverables that have been delayed because of this slower concept paper process.

The MBP Project Team has learned two important lessons from this concept paper development process. First, the time allotted during Year One for concept paper development was insufficient to achieve the desired results. Therefore, DAI, in conversations with USAID/G/EG/MD staff members, has decided to limit project deliverables during Year Two to the 13 research topics with Concept Papers completed during Year One. In addition, the MBP research team will complete concept papers for the remaining seven research topics, but does not plan to complete any research deliverables for those topics during Year Two. In order to ensure that expectations of an acceptable concept paper remain in line with the resources available and time frame allotted, DAI recommends that G/EG/MD staff have the opportunity to comment on one round of concept paper content with two weeks to provide feedback.

The second lesson relates to the nature and use of the concept papers. These are fluid documents which prove an initial conceptual framework for each research topic. As such, each will undergo iterations as more knowledge is gained during the life of the project. Therefore, although the products identified in the concept papers provide a blue print for the MBP research agenda, the research team is not committed to these deliverables and may further refine or substitute these products in the future.

- **The Changing Research Requirements of the Microenterprise Field**

Section C of the contract is based upon the RFP specifications, now written several years ago. In the ensuing years, much learning has taken place in the microenterprise and microfinance field. In addition, new players are undertaking research in topics of highest interest, all of which are

also part of the broad MBP research agenda. Finally, research issues originally considered “horizon” topics of MBP have become more central to the debates and issues confronting practitioners today. The net effect of these changes are two-fold. First, some of the topic areas on the MBP agenda require different types of products than originally conceived, based on current knowledge in the field. Second, some of the topic areas which originally received minimal funding now are of higher priority. These topic areas would benefit from shifting resources from lower-priority MBP topic areas into these emerging areas.

DAI’s recommendations for updating the MBP agenda are emerging from the concept paper process. As each topic is examined, it becomes clear which products laid out in Section C are still required in the exact form specified; and which should be replaced by alternative types of products or devoted to separate topic areas altogether. DAI recommends that a thorough review of the technical content of the Research Component be undertaken during the second half of Year Two. Based on the results of this review, Section C should be updated to reflect the changes that have taken place since the RFP was written.

### **C.7.c Grant Facility Lessons**

As discussed above, the Grant Facility strives to provide resources to field-based efforts at learning and innovation. To strengthen the “field-based” nature of the grant facility, an underlying objective was to encourage high-quality ideas from developing countries. Year One grant solicitations took a “laissez faire” approach to cultivating field-based proposals, thereby learning the following lessons.

- **Unlevel Playing Field -- Unfair Advantage for U.S. PVOs**

Of the 95 proposals considered for funding in Year One, the majority (57%) were from locally-based (non-US) institutions. However, of the 13 awards made, only four were to local institutions, or approximately 30% of the portfolio. Moreover, three of these awards were for exchange visit grants, the smallest type of grant; only one was for a capacity-building activity. The lesson learned was that the MBP grant facility must find ways to improve proposal quality from locally-based institutions. A grant portfolio with a healthy mix of locally-based institutions in the capacity-building and innovation grant categories will be among the key elements helping MBP meet its performance standard for the grant facility: “establishment...of effective training and information exchange activities that are likely to outlive the project.”

Based on this lesson, DAI makes two recommendations. First, the grant announcements should be translated into French and Spanish so that non-native English speakers will better understand MBP’s funding mandate and application and eligibility requirements. Second, DAI recommends instituting a pre-proposal phase so that all applicants can submit their funding ideas to DAI for comment prior to investing the extensive resources required to develop a full grant proposal. It is hoped that these mechanisms will lead to a stronger pool of locally-based applicants.

- **Pilot Project Grant Category Confusing for Applicants**

Seventeen of the 34 proposals culled for non-responsiveness were in the pilot project category. These proposals were non-responsive because they were for the piloting of existing and well-established programs and methodologies rather than for innovations in the field as a whole. This illustrated that the solicitation did not adequately explain what was meant by “pilot projects”. Based on this lesson, DAI recommends changing the name of this grant category from Pilot Project Grants to Innovation Grants.

- **Revision of Years Four and Five Grant Solicitations**

Contractually, DAI is unable to make grant awards for which completion dates extend beyond the end date of the overall MBP contract. At the same time, the MBP contract states that DAI must hold two solicitations per year. Unfortunately, conforming with the latter requirement will put DAI in noncompliance with the first requirement. In order to give grantees time to submit final reports and MBP time to close-out grants by the overall MBP contract end date, all grants must end no later than October 2000, with final reports due no later than January 2001 (per 22 CFR 226 requirements).

DAI makes the following recommendations. First, it is inadvisable and impractical to have solicitations for capacity-building grants in Year Five, given that these grants are generally for a one-year period. Second, it is inadvisable and impractical to have solicitations for Innovation Grants in either Years Four or Five, given that these grants can be for a two-year period. DAI thereby recommends that grant solicitations in Year Four be limited to Capacity Building and Exchange Visit grants only; and grant solicitations in Year Five be limited to Exchange Visit grants only. This will result in only one solicitation in Year Five, rather than the two solicitations now specified in Section C of the contract.

#### **C.7.d Information Dissemination Lessons**

- **Timing of Public Events**

The MBP contract requires DAI to undertake four public events in each project year: three workshops or seminars and one large conference. Over the life of the project, half of these events are to take place within the U.S., and the other half overseas. The contract also states that the public events are to “disseminate findings” of the MBP project.

As noted in three of the Year One Quarterly Reports, the timing of the MBP public events (workshop/seminars and conferences) as laid out in Section C is inappropriate given the stated objectives of such activities. Because the majority of project findings are expected to emerge around the mid-point or later years of the project, events should be held after such findings are in hand, or later in the project life. Based on this reasoning, DAI requested delaying two of the Year One workshops/seminars and the large Year One conference to later project years. It may

again be necessary to delay public events required for Year Two until later project years in order to maximize their effectiveness. DAI recommends that, for the early project years, MBP undertake smaller public events (such as public briefings) to share findings emerging from single pieces of research or grants. If a review and revision of Section C is undertaken at the end of Year Two (as recommended above under C.7.b), this issue can be contractually resolved at that time.

## **D. PLAN FOR YEAR TWO ACTIVITIES**

This section outlines anticipated Year Two activities. Contractual deliverables are presented by project component, along with projections of when deliverables will be completed. Budgetary estimates are also provided by CLIN.

### **D.1 Year Two Management Activities**

Management activities in Year Two will focus upon refining many of the systems developed in Year One, and in monitoring the multiple project deliverables planned for Year Two. In addition, project management will undertake a revision of the life-of-project budget for the Research Component, based upon revisions of timing and content of research deliverables as laid out in the concept papers.

#### **D.1.a Personnel**

Based upon the lessons learned about project staffing in Year One, the MBP management staffing plan will be revised in three ways. First, the Managing Director will move from a part-time to a full-time position, to allow greater oversight of project activities. Second, the positions of Information Dissemination Coordinator and Project Administrator will be combined to create a lower-cost full-time position. Third, the management responsibilities of the Technical Director will be reduced to allow him to focus on the grants and research deliverables. These three changes will place two full-time and one part-time DAI staffers on MBP in the place of four part-time positions in Year One.

Year Two will begin with a change in one of the project's key personnel. In the first quarter of Year Two, the MBP Managing Director, Joan Parker, will resign from the project staff. DAI will undertake thorough search process to replace her, with expectations that the new Managing Director will serve through the remainder of the project.

#### **D.1.b Year Two Management Deliverables**

The MBP management team will produce the following required deliverables in Year Two:

- Year Two work plan (to be completed in June 1997)
- Four quarterly reports (to be submitted in April, July, October, and January)
- Twelve monthly financial reports

#### **D.1.c Other Management Activities, Year Two**

In addition to regular monitoring and management activities, MBP managers will focus attention on further developing the administrative and communication systems between MBP consortium members. Within DAI, efforts will go into refining the design and use of the TAMIS database. With subcontractors, DAI will focus on installation and training on TAMIS, as well as on improved guidance of MBP processes and procedures. Finally, MBP managers will focus on refining the BAFO budget so that it accurately reflects the work planned under the project.

## **D.2 Year Two Research Activities**

Year Two research activities are grouped into three categories:

- Completion of research deliverables begun in Year One
- Development of research deliverables under all topic areas in which concept papers were completed in Year One
- Completion of concept papers for all remaining topic areas

After extensive technical discussions with G/EG/MD and subcontractor institutions, DAI prepared a list of 23 research products<sup>3</sup>, including 15 deliverables, to be completed in Year Two. This list, which includes projected completion dates and research institutions for each product, is presented in the table on the following page. As noted, six of the seven MBP subcontractors are expected to participate in research activities during Year Two.<sup>4</sup>

DAI is committed to delivering the 23 research products listed on the following page during MBP Project Year Two. In addition, several MBP researchers expect to begin work on additional products during the project year. However, the MBP Consortium will not substitute these additional products for any of the 23 research products listed on the following page.

The MBP Managing Director will monitor this schedule closely. As part of the deliverable quarterly report, the Managing Director will provide an update on research deliverables' progress and request schedule modifications if necessary. It is expected that the AID COTR will review these modification requests and provide an approval, rejection or clarification request to the MBP Managing Director within ten working days after receipt of the quarterly report.

---

<sup>3</sup> It is important to note that while concept papers are not required deliverables, they are research products as planned in DAI's original technical proposal.

<sup>4</sup> ACCION International, FINCA International, Opportunity International (OI), the Ohio State University (OSU), the Small Enterprise Education and Promotion (SEEP) Network, and International Management and Communications Corporation (IMCC) are all scheduled for specific research activities in Year Two.



### Planned Year Two Research Outputs

Research Topic Area	Products Expected in Year Two	Institutions Assigned	Date of Submission to USAID
1. Managing Growth	Literature Review (started in Year 1)	ACCION	6/30/97
	Case Study	ACCION	12/30/97
2. Loan Sizes, Lending Strategies, and Poverty	Desk Study	OSU/FINCA	11/15/97
3. Governance (with #9: Ownership)	Desk Study	ACCION	11/15/97
4. Networks/Replication	Concept Paper	DAI	11/30/97
5. Information Management	Case Study	OI	3/15/98
6. Special Financial Management Issues	Technical Note	ACCION	3/15/98
7. Savings Services	Technical Note	IMCC	2/15/98
8. Regulation and Supervision	Case Study	IMCC	1/15/97
10. Social Intermediation	Concept Memo	SEEP	6/13/97
11. Village Banking	Desk Study	OSU	3/15/98
12. Evolution of Credit Methodologies	Technical Note	ACCION	1/15/98
13. Alternative Financing Mechanisms	Desk Review	ACCION	3/1/98
14. Business Development Services	Desk Study (started in Year 1)	IMCC	8/15/97
	Case Study	SEEP	9/30/97
15. Advocacy	Concept Paper	IMCC/DAI	1/15/98
16. Institutional Alternatives	Desk Study (started in Year 1)	OSU	7/30/97
	Case Study	OSU	12/31/97
17. New Financial Products and Services	Concept Paper	OI/DAI	3/31/98
18. Sectoral Linkages *	Concept Memo	SEEP/DAI	11/15/97
19. Market Access	Concept Paper	IMCC	1/15/98
20. Social Safety Nets	Concept Paper	SEEP	7/30/97
21. Small Business Development	Concept Paper	unassigned	3/25/98
Total for Research Component	23 outputs (15 deliverables)	involving DAI and six subcontractors	

\* MBP is waiting for direction from USAID on the focus of the Sectoral Linkages topic. The USAID Office of Microenterprise Development is conducting a review of agency projects on this topic and expects to finalize its priorities by August 30. Following USAID's determination of these priorities, MBP researchers will begin work on a concept memo on Sectoral Linkages to be followed by a desk review at the appropriate time. Therefore, the dates for the Sectoral Linkages Concept Memo are for planning purposes only and are subject to change.

### **D.3 Year Two Grant Facility Activities**

Based upon the programmatic and administrative infrastructure developed in Year One, Year Two Grant Facility activities will include the following:

- Revision to design of Grant Facility
- Solicitation and Award of Exchange Visit Grants  
(with proposal deadlines of 4/30/97; 6/30/97; 12/1/97; and 3/31/98)
- Solicitation and Award of Capacity-building and Innovation Grants  
(with proposal deadlines on 12/1/97)
- Monitoring and learning activities for Year One grant portfolio

Additional details on each of these activities is provided below.

#### **D.3.a Revision to Design of Grant Facility**

The Year Two solicitation process will differ from Year One's approach in three ways, as specified in the "Lessons Learned and Recommendations" section above.

- C First, solicitation announcements will be disseminated in French and Spanish as well as English to increase understanding of the Grant Facility's purpose and application process.
- C Second, two-page pre-proposals will be submitted, on the basis of which MBP will solicit full-length proposals for those that fit the MBP Grant Facility mandate and requirements. This second change is designed to improve the quality of the full proposals, and offer institutions a mechanism to vet their grant ideas without undertaking a full-scale proposal effort.
- C Third, "pilot project" grants will be renamed "innovation grants" in order to further clarify the mandate of this grant type.

### D.3.b Exchange Visit Grant Solicitations and Awards

The following table outlines the Year Two Exchange Visit Grant proposal schedule and projected award amounts. MBP anticipates awarding eight exchange visit grants for a total of \$80,000 during Year Two.

<b>Solicitation Mailed</b>	<b>Proposals Due</b>	<b>Award Notification</b>	<b>Average Grant Award</b>
January 1997 (Year 1)	4/30/97 6/30/97	6/15/97 8/15/97	2 @ average of \$10,000 each 2 @ average of \$10,000 each
June 1997	12/1/97 3/31/98	2/2/98 5/15/98	2 @ average of \$10,000 each 2 @ average of \$10,000 each
			8 grants: \$80,000 total

### D.3.c Capacity-building and Innovation Grants Solicitations and Awards

The following table outlines the Year Two Capacity Building and Innovation Grants proposal schedule and projected award amounts. MBP anticipates awarding seven grants for a total of \$810,000 in these two categories.

<b>Solicitation Mailed</b>	<b>Pre-Proposal Due</b>	<b>Proposal Due</b>	<b>Award Notification</b>	<b>Average Grant Award</b>
June 1997	8/29/97	12/1/97	2/2/98	Capacity: 4 @ average of \$80,000 each Innovation: 3 @ average of \$70,000 each
				7 grants: \$810,000 total

### D.3.d Monitoring and Learning Strategy for Year One Grant Portfolio

MBP's mandate is to widen the circle of best practices organizations which provide services to microenterprises and the poor, and to move forward through experimentation and innovation at the frontier and horizon of microenterprise development. MBP requires all grant recipients to track their progress toward the goals and objectives of their activity and to provide this information to MBP in periodic technical reports.

Specifically, for Capacity-building and Innovation Grants, each organization will be asked to report on measurable outcomes identified in their proposals. MBP will work with grant recipients to strengthen grant-funded activities and share the results and products of grant funding with the microenterprise field as a whole. MBP monitoring activities will include, but not be limited to, telephone and site visits and attendance at activity events. MBP learning activities will include, but not be limited to, documenting selected activities and synthesizing lessons from multiple grant activities into larger products to enhance the sustainability of individual grant efforts.

#### **D.4 Year Two Information Dissemination Activities**

For the Information Dissemination Component, Year Two activities are of three types:

- Maintenance and refinement of existing information systems
- Public Events
- Exploration of new information dissemination channels

##### **D.4.a Maintenance and Refinement of Existing Information Systems**

DAI will give weekly attention to maintaining the MIP website, and regularly evaluate the structure and content to continuously improve its content and presentation. As part of this maintenance, DAI provides USAID with regular updates on website usage, including an assessment of the site's most popular areas.

DAI will also regularly update the MBP mailing list, based on website registration, direct contacts, and lists provided by other sources. Maintaining a current and complete mailing list will become increasingly important as MBP uses it more frequently to disseminate research findings (such as through ListServe mechanisms) and for announcing public events.

##### **D.4.b Public Events**

Three workshops or seminars are planned for Year Two. The first, "Village Banking and Sustainability", was held in May. Topics for the second and third workshops have yet to be identified, but are expected to be based upon new MBP research produced in this project year. As such, these two workshops are likely to take place in Quarter 4 (between 1/1/98 and 3/31/98).

In addition to the workshops, MBP will endeavor to find opportunities to hold smaller public briefings and round table discussions, at which specific research products will be presented and discussed. Such briefings may be held at the State Department and sponsored by USAID/G/EG/MD. MBP researchers will be asked to provide the briefing as part of their

contracted work under MBP.

As mentioned in the “Lessons Learned and Recommendations” section above, MBP will not conduct a conference in Year Two. This deliverable will be postponed to a later project year, at which time more MBP research findings will be available.

#### **D.4.c Exploration of new information dissemination channels**

The MBP project is proceeding at a time when tremendous changes are taking place in information technology. Technologies that were once available only to those in developed countries are rapidly becoming available in more remote parts of the world. While world-wide web access is still expensive in many parts of the developing world, email is rapidly becoming both commonplace and inexpensive, thanks to the introduction of X.25 technologies. Given the extensive reach of email, MBP is exploring the use of an email-based ListServe to disseminate MBP findings broadly and at minimum maintenance cost to the MBP project. In Year Two, the MBP Information Dissemination Coordinator will develop a feasibility plan to examine the costs and possible structure of such a ListServe mechanism. By the beginning of Year Three, it will be possible to move forward with implementation of the system, at which time sufficient MBP findings and products should exist to make the system valuable to users.

MBP’s goal of world-wide information dissemination also raises the issue of document translation. During Year Two, MBP will identify low-cost French and Spanish language translation sources. At this stage, MBP plans to translate all document summaries from English into these two languages. These summaries will be posted on the MIP website, and possibly through a language-specific ListServe technology.

Additionally, MBP will explore the use of various other channels in order to publicize the MBP project and disseminate research findings. Illustrative examples include:

- C distributing MBP materials and announcements at meetings of appropriate professional organizations;
- C utilizing mailing lists and publications of by MBP partner organizations;
- C placing notices and advertisements in key relevant newsletters or bulletins;
- C hosting informal "brown bag" sessions on pertinent topics and ongoing MBP research.

#### **D. 5 Year Two Planned Expenditures by Contract Line Item Number**

Based on the project deliverables identified in the preceding sections, DAI projects expenditures of \$1,965,752 during Year Two of the MBP project. The following table present the expenditures

by contract budget line item (CLIN). These figures do not include the \$379,890 to be disbursed from Year One Grant Commitments nor the expenses carried over from Year One research products.

**Year Two Projected Expenditures by Contract Line Item (CLIN)**

<b>Contract Budget Line Item</b>	<b>Life of Project Budget</b>	<b>Year Two Planned Expenditures</b>
Management	639,450	207,907
Best Practices Research	1,078,621	179,984
Frontier Research	1,490,969	289,654
Horizon Research	1,190,647	93,867
Information Dissemination	1,373,746	217,679
Grant Administration	508,716	140,863
Grant Funding*	2,400,000	890,000
Total	\$8,682,149	\$2,019,954

\* Please note Grant Funding is the total value for grant obligations approved during year 2.

**LIST AND CONTENT OF MBP CONCEPT PAPERS  
AS OF 3/31/97**

<b>TOPIC</b>	<b>TITLE</b>
1	Managing Growth of Microfinance Institutions
2	Loan Sizes, Lending Strategies, and Poverty
3 & 9	Ownership and Governance of Microfinance Institutions
5	Information Management for Microfinance Intermediaries
6	Special Financial Management Issues in Microfinance
7	Savings Services
8	Regulation and Supervision of Microfinance Institutions
10	Microenterprise Development and Social Intermediation (in discussion form only at the end of Year One)
11	Village Banking
12	Evolution of Credit Methodologies
13	Alternative Financing Mechanisms
14	Business Development Services for Microenterprises
16	Institutional Alternatives for Microfinance
20	Microenterprise Development and Social Safety Nets (in discussion form only at the end of Year One)



## **Topic 1: Managing Growth**

Outreach and financial viability are the two critical objectives for microfinance institutions. As defined by Christen *et al*, outreach is the ability to provide quality financial services to large numbers of people, especially the very poor. Outreach is an indicator of the institution's development mission—to scale up and provide financial services to as many people as possible. Financial viability means operating at a level of profitability that allows sustained service delivery without dependence on subsidized inputs. This represents the institution's commercial strategy. For microfinance institutions (MFIs), managing growth is the process of balancing the sometimes incompatible objectives of outreach and financial viability—balancing the commercial strategy and the development mission.

This topic will explore three organizational development aspects that are essential for managing growth but are not addressed in depth in other topics:

- 1) staff development: recruitment, training, motivation, compensation and incentives for loan officers and middle management;
- 2) the structure of growth: organizational design, increasing capacity through improved productivity and additional resources, new product and market development, and managerial oversight;
- 3) institutional culture: the core values of the institution as defined by its architects—its founders, the board of directors and senior management.

Managing growth, as defined by these three issues, is the process of building solid and lasting institutions—literally institution building.

## **Topic 2: Loan Sizes, Lending Strategies, and Poverty**

The driving objective of the research is to *find mechanisms of assessing the poverty of potential clients that mimic poverty line measures but at a cost that is acceptable to microfinance programs and using methodologies within microfinance programs' reach*. We will not attempt to develop a complete inventory of such poverty assessment methods, rather to identify a range of prototypes of techniques through a selective interview approach. Once such tools are identified, evaluated, and improved upon, the second objective of the research is to assess the poverty level of clients that programs attract with a given set of products and methodologies. This information will allow programs and funders to better target program development and funding toward activities that reach the intended client group. MBP is focusing on *incoming clients*, to identify which instruments attract a poorer clientele, and how certain eligibility requirements may help or hinder efforts to reach the target population.

### **Topics 3 & 9: Ownership and Governance of Microfinance Institutions**

Recent work in the area of institutional economics has drawn attention to the important role which different organizational forms have upon economic outcomes. In addition to the diversity of ownership structures, the separation of ownership from management (whether in a public, private or mutual form of organization), as well as dispersion in ownership, introduce important problems of governance. These problems are the result of the monitoring costs associated with efforts to ensure accountability on the part of professional management. All types of institutional designs suffer from different degrees of governance problems.

This research topic will focus on how distinct types of ownership and governance arrangements result in different operational, economic and social outcomes. The objectives are: to define the functions, structures and procedures of governance; to identify the best practices of governance; to describe ownership constraints on governance; and to examine the implications of ownership and governance choices as they relate to institutional transformation of microfinance intermediaries.

### **Topic 5: Information Systems for Microfinance Intermediaries**

Information management is a critical issue for microfinance intermediaries (MFIs). Information is essential for safeguarding the organization's portfolio, for understanding business trends and demand for services, for planning programs and activities, and for mobilizing support for the organization and its programs. Yet no task has been more daunting, more vexing, and more frustrating than finding, selecting or building information systems to support MFIs and their programs.

The objective of the Microenterprise Best Practices component for Management Information Systems is to provide MFIs with a conceptual framework and set of tools for planning, selecting, building and installing management information systems that help the organizations achieve their program objectives. MBP will seek to complement the work of CGAP and others, by focusing on a select number of issues of utmost importance. Our approach will be to build upon research conducted under other areas of MBP with particular emphasis on the following:

- C in depth treatment of implementation issues;
- C complexities and issues in information management with the introduction of savings; and
- C maintaining control over information.

### **Topic 6: Special Financial Management Issues**

Microfinance programs are often started and staffed by individuals with a community development or social service background. Initial funding for their activities often comes from

donor resources that may even exceed the program's institutional capacity. During the early stages in the development of microfinance institutions (MFIs), therefore, financial management is usually secondary to more pressing issues like operational management and fine-tuning the lending methodology. As these programs expand, decentralize and diversify, as they link with the formal financial sector, as they become more focused on financial self-sufficiency, as resources become tighter and more expensive, MFIs develop a critical need for improved financial management skills and more sophisticated financial tools.

The MBP work on this topic is designed to complement other efforts in the field on this topic, while providing microfinance practitioners with practical guidelines to address some of their most urgent financial management needs including:

- C internal control,
- C fraud detection and prevention, and
- C measuring profitability.

### **Topic 7: Savings Services Concept Paper**

Savings services play a crucial role in micro finance in two ways:

- C as a potential major source of funding for micro finance institutions; and
- C as a service for microenterprises and other small-scale clients that can be at least as important as credit.

In addition to contributions from governments and donors and possible equity investments from the private sector, micro finance institutions that have achieved a measure of sustainability must seek borrowed funds from commercial sources if they are to leverage themselves to achieve truly significant outreach. They must become credit worthy themselves, and this requires the same discipline whether they want to get a loan from a bank or take deposits from savers. Commercial funding can come either through borrowing from formal financial institutions or in financial markets (e.g., banks and securities issues) or through deposit mobilization. The former sources are to be investigated under the MBP topic of Alternative Financing Mechanisms. With respect to deposit mobilization, three alternatives can be distinguished: (1) compulsory deposits; (2) voluntary deposits from micro clients; and (3) voluntary deposits from other sources.

Two specific aspects of various financial deposit instruments will be examined under this topic:

- C the attractiveness of financial instruments to micro clients, and
- C the costs to micro finance institutions of providing savings services.

Attractive financial instruments, which are necessary to mobilize voluntary deposits, are basically an appropriate mix of four key characteristics: (1) rate of return; (2) quality of service (primarily liquidity); (3) security; and (4) reciprocity (improved borrowing opportunities based on favorable deposit histories). The relative importance of each of these characteristics will be researched to determine more precisely the trade-offs to clients and the costs to institutions.

### **Topic 8: Regulation and Supervision**

Non-governmental organizations (NGOs) and credit unions (CUs) represent the two most prevalent types of institutions providing financial services to the microenterprise sectors worldwide. In recent years, however pioneering banking institutions are expanding their reach into the microenterprise market, creating a microfinance loan portfolio side by side with their traditional lending operations. Unlike the CUs and banks, NGOs have traditionally funded their lending operations from external sources of donated capital. In order to sustain the rapid growth in the demand for credit, however, they also must gain access to a more stable and predictable supply of loanable resources. In some cases, the NGOs are transforming into regulated financial intermediaries in order to tap into the domestic deposit and capital markets. As microenterprise loan portfolios are increasingly financed from domestic savings deposits, greater attention must be directed to understanding the particular risk characteristics of these microenterprise loan portfolios, as well as broader issues related to the prudential management of these diverse set of institutional designs.

This research topic will focus on:

- C Factors regulators need to evaluate to understand microfinance asset quality;
- C How ownership and governance structures impact the supervision of microfinance;
- C What ongoing inspection should involve;
- C What examiners should do when they detect problems.

### **Topic 10: Social Intermediation (in discussion form only at the end of Year One)**

Social intermediation is a term associated the work of Lynn Bennett and the World Bank's Sustainable Banking with the Poor Program. In various documents (Bennett, 1996 and Bennett, Cuevas, 1996), it has been defined as an investment in building up the human resource and institutional capital of marginalized groups with the aim of increasing self-reliance, and preparing them to engage in formal financial intermediation. The process involves several aspects:

- C investing in the building of social capital, defined as networks, norms, and trust that facilitate coordination and cooperation for mutual benefit;
- C transforming beneficiaries into clients able to enter into contracts involving reciprocal obligations; and
- C developing systems and structures that create new collective assets, such as reputation mechanisms, that enable the most marginal to access more formal financial markets.

In order to understand more clearly how this subject area can complement research under other MBP topics and to advance a more detailed knowledge of the subject itself, the researchers will commence with a literature review. This research will build on the initial ideas and further develop the definition and critical aspects of social intermediation. The typology of conceptual models would be expanded with a focus on further elaborating their identifying features, the substantive issues associated with

each, and any preliminary findings.

### **Topic 11: Village Banking**

Village Banking is an evolving microfinance technology distinguished by a combination of three characteristics: depth of outreach, a savings as well as credit component, and a participatory management structure at the village bank level. Village Banking programs tend to achieve a greater depth of outreach than other sustainable microfinance approaches: the financial products and delivery system are structured and standardized to meet the needs of lower-income, less educated clients often living in remote areas. Village Banking programs now seek to increase their sustainability, scale of outreach and quality of services while maintaining this depth. To accomplish these aims, practitioners are fundamentally altering the institutional structures and methodologies of Village Banking programs. On an institutional level, the original Village Banking methodology called for the development of participatory, self-managed peer lending groups that would self-capitalize and become fully autonomous within three years. Village Banking programs have replaced this bank “graduation” in favor of a range of other institutional arrangements that increase clients' on-going access to capital. These new institutional arrangements can enable implementing organizations to achieve greater financial sustainability and therefore larger scale outreach. To do so, accountability and the drive for financial sustainability must be embedded in institutional incentives at all levels. The research agenda will focus on the following issues:

- Ⓒ Institutional Options
- Ⓒ Internal Account
- Ⓒ Demand for Services: Membership Turnover and Loan Plateaus
- Ⓒ Financial Sustainability: Expanding While Deepening Outreach
- Ⓒ Financial Sustainability: Cost Management

### **Topic 12: Evolution of Credit Methodologies**

Over the past decade, the determinants of the success of microfinance credit methodologies have received extensive attention from both practitioners and academics. The resulting literature reflects consensus on the principles for the successful provision of microfinancial services that address the two central problems of all financial markets: imperfect information and contract enforcement difficulties. Microfinance technologies attempt to overcome these problems by developing non-traditional mechanisms to screen applicants, monitor the actions of borrowers, and create incentives to repay. Many elements of these technologies impose costs on clients that they would prefer not to pay, or may result in services that are less than ideal. For example, some customers would prefer not to co-guarantee loans or participate in group meetings, which are ingredients of group lending methodologies; for other clients, the initial loan size required by sequential lending may be too small for the needs of their enterprise. These features have evolved in order to minimize the risk associated with providing financial services to disadvantaged communities.

Having successfully controlled the credit risk, microfinance methodologies are now entering a new evolutionary phase as they become more responsive to the demands of the customers. This change in approach reflects the evolving needs of microentrepreneurs, the maturation of the institutions, and changes in the markets in which the microfinance institutions (MFIs) operate. In this new phase, MFIs are struggling to balance three potentially competing objectives: 1) to reduce the costs of microfinance for both borrower and lender; 2) to widen the range of microfinance products available to the clients; and 3) to accomplish objectives 1 & 2 without increasing the credit risk. These three desired objectives are not independent of each other, and may require trade-offs.

An understanding of this evolutionary process informs the future of microfinance methodologies. This framework for analysis, outlines three important questions about the evolution of microfinance technologies:

- C       why do they change;
- C       how do they change;
- C       what do they change into.

The fundamental issue examined under this topic is new product development and its effect on microfinance institutions and clients.

### **Topic 13: Alternative Financing Mechanisms**

Over the past ten years, for many NGO's the primary focus has been on expanding their lending activities to reach a significant percent of the micro-enterprise market. In an effort to achieve this goal and recognizing the limitations of donor monies to fund the desired increase in portfolio, a few NGO's have built links with the formal financial system. During this period they have developed "alternative financing mechanisms"; they have moved away from donor funding into the traditional sources of capital available to the typical corporation: internally generated funds, bank loans and both debt and equity financing raised in the capital markets. One may identify three distinct stages in the evolution of the financial structure of the NGO's:

- C       ***Donor-Driven:*** the NGO's principal source of funding is from donations;
- C       ***Leverage:*** NGO's begin to leverage their equity with commercial sources of funding first with commercial bank credit (often collateralized with a cash collateral account or letter of credit) and over time, with capital market instruments such as bonds or commercial paper;
- C       ***Full Financial Intermediation:*** NGO's have, for the most part, transformed their institutional charter to allow them to mobilize deposits/savings from the public or to issue bonds and CD's as well as equity shares.

This Research Topic will describe the evolution of the capital structure of NGO's at levels two and three (with a focus on two) and at each level: identify the pre-conditions that must exist for the NGO to have access to these "alternative financing mechanisms"; describe the financing mechanisms; and explore the implications for the institution as the capital structure evolves. The deliverables suggested under this Research Topic will explore these stages in the evolution of the financing structure of NGO's, describing the role of retained earnings and commercial bank borrowing to fund

portfolio growth as well as the role of debt (paper) and equity raised in the capital markets.

#### **Topic 14: Business Development Services for Microenterprises**

*(Formerly known as Non-Financial Services)*

For the purposes of analysis, we group business development services into three general categories:

- C services that help microenterprises deal with **legal, regulatory, and policy constraints**;
- C services that help microenterprises deal with **demand-side problems** — such as identifying market opportunities and accessing markets for particular kinds of products and services; and
- C services that help microenterprises deal with **supply side problems** — including access to production technology and facilities, supplies and inputs, and business know-how — of both a general and product or service-specific nature. This category includes management and human capacity issues, as well as such technical supply barriers as product design and development.

Identifying the "best cases" from the stocktaking efforts undertaken by other institutions (IDB, WWB), MBP will examine (1) which institutional options appear to be most successful for each type of service; (2) whether these programs take a general or industry-specific approach; (3) how they assess or stimulate client demand; (4) how much their services actually cost to deliver; (5) outreach of services; and (6) how they match services to the needs of a changing market place which drives the ultimate success of the entrepreneur. Finally, the researchers will develop a set of preliminary indicators of success for each type of service. These indicators are expected to be a "work in progress", providing a perspective to guide the MBP investigations, and will undoubtedly be refined by this process.

#### **Topic 16: Institutional Alternatives for Microfinance**

In developing countries, at the present time microfinancial services are being supplied largely by nongovernment organizations (NGOs). This predominance of NGOs has grown out in part from a donor bias that has emphasized these organizations as a promising vehicle to promote credit services for the poor. It has also reflected the failure of earlier attempts to reach the poor through alternative mechanisms. Only a small number of these NGO institutions, however, are viable, i.e. able to provide financial services, essentially credit, on a long-term, self-sustaining basis, without recourse to subsidies. Given the less than overwhelming success of many of these NGO microfinance experiments, it is appropriate to investigate anew the feasibility of using alternative institutional arrangements to provide financial services for marginal clientele.

Three institutional types come to mind: private commercial banks, state-owned banks, and mutualist organizations. The task at hand is to evaluate the potential for downscaling private commercial

banks, restructuring state-owned banks, and strengthening mutualist organizations so that they can successfully operate in a world of microfinance. Banks, both private and state-owned, could attain a greater level of outreach with their extensive branch networks, especially with deposit facilities, a service usually neglected by NGOs. At the same time, the state-owned banks have operated broader branch networks in the rural areas and have served an agricultural clientele, also generally ignored by NGOs. Moreover, both bank types avoid the difficulties of institutional transformation that NGOs face later in their growth, in that they already have a deposit liability side in their business, hold a banking licence (charter), and are subject to a prudential regulatory and supervisory framework.

### **Topic 20: Social Safety Nets (in discussion form only at the end of Year One)**

This topic will focus on the intersection of microenterprise practice with the harsh environment of natural and man-made catastrophe which is the context for millions of the poorer candidates for enterprise development services. Such catastrophes include systemic economic crises, political instability and wars, and natural disasters such as floods, drought or cyclones. Even in "normal" development contexts, there are organizations that have set their sights on the most vulnerable of populations such as the vision-impaired or street children. In all of these circumstances, the question is: how can microenterprise strategies help create or substitute for the social safety nets that are not there? How can they function preemptively to strengthen the ability of clients to survive emergencies when they hit? How can they help people suffering from the most serious disasters overcome them?